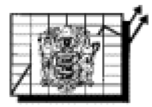
NEW JERSEY ECONOMIC REVIEW & OUTLOOK FOR 2006

"Restoring confidence in New Jersey's economy and improving economic growth while solving the state's structural fiscal problems is the policy challenge for 2006."
Joseph J. Seneca, Chairman

New Jersey Review and Forecast: Summary



The New Jersey economy remains strong and the outlook for 2006 is for continued growth in employment and income. In many ways, New Jersey has an enviable economic profile – a large and balanced employment base with a record number of people working, income and wealth levels that are among the highest in the country, a well-educated and productive workforce, and over-representation in employment in key high-paying service sectors.

However, there is worrisome evidence that the state's economic advantages are eroding. In 2005 the state's employment growth rate lagged well behind that of the nation and the composition of the state's job growth was concentrated in relatively lower-than-average pay sectors. In addition, a longer-term erosion of the state's science and technology employment base also raises questions about the future direction of the economy and emphasizes the need for an aggressive economic development policy. At the same time, the state's persistent structural fiscal deficit must be addressed, but it must be done in a way that does not damage the economy.

In 2005, the state added 37,200 jobs for a .9% increase (December 2004 to December 2005). The state's employment rate of growth was significantly below the 1.5% job increase of the nation, despite two major hurricanes that caused significant employment losses in the Gulf Coast region. In 2004 New Jersey added 46,300 jobs. Thus, employment growth in 2005 was down by 9,100 jobs from a year earlier. However, nearly one-third of the 2004 job gain was in the public sector. Private sector employment in New Jersey in 2005 grew by 35,400 jobs, and exceeded the 31,300 private sector job gain of 2004.

The largest job increases in 2005 were in Leisure and Hospitality (15,700 jobs), Education and Health services (13,000 jobs), and Trade, Transportation, and Utilities (11,700 jobs). Significant employment losses continued in Manufacturing (-14,100 jobs). The Construction sector (-1,800 jobs) and the Information sector (-1,600 jobs) also lost employment.

Personal income growth in New Jersey was solid with a 5.3% gain between the third quarter of 2004 and the third quarter of 2005. For the first three quarters of 2005, personal income rose by 5.8% over the same period in 2004. Housing activity in 2005 continued to be very strong and new residential permits approached 39,000, the highest annual total of the decade. Home prices also continued to rise rapidly with the median price of an existing single family home in New Jersey increasing by 13.6% between the third quarter of 2004 and the third quarter of 2005. However, the long-awaited, and frequently forecasted, cooling of the housing sector is finally underway. By the end of 2005, a significant increase in unsold housing inventory, a slowdown in price appreciation, and a marked decline in housing sales in New Jersey all pointed convincingly to a slowing housing sector in 2006.

New Jersey's export sector remained a strong engine of growth in 2005 as exports increased by 9.4% to $21 billion. This increase in exports, along with rising volumes of import traffic handled by the state's ports, supported growth in economic activity in transportation, warehousing and distribution.

Summary: New Jersey Forecast (% Change)		
	2005	**2006**
Gross State Product (Current $, bill)*	**5.1%**	**5.0%**
Personal Income (Current $, bill)	**5.2%**	**5.3%**
Retail Sales (Current $, bill)	**4.8%**	**4.9%**
Consumer Price Index (All Urban)	**3.9%**	**3.8%**
Total Non-Ag Employment	**0.9%**	**1.0%**

*** U.S. GDP (current dollars) grew by 6.3% in 2005.**

The U.S. Economy

The national economy grew by 3.5% in 2005, down from the very strong growth of 4.2% in real Gross Domestic Product in 2004. Employment increased by 2 million jobs in 2005, or by 1.5%, despite the damages and disruptions of two hurricanes that constrained job growth in September and October. Inflation continued its worrisome trend upward and the Consumer Price Index rose by 3.4% for the year, up from the 3.3% gain in 2004. Energy costs, with several spikes and subsequent declines during the year, soared by 17.1% after rising by 16.6% in 2004. These increases continue to create echo effects through the overall structure of prices and bring increased concerns of a further acceleration in inflation in 2006.

In addition, productivity growth for 2005 slowed to 2.7%, the slowest pace since 2001 and unit labor costs rose by 2.4%, which was more than twice the increase of 1.1% in 2004. The combined effect of sustained higher energy costs and rising unit labor costs suggest further interest rate increases and a slowing national economy in 2006. The nation's trade deficit set another record, continuing long-standing concerns about the effects on the U.S. economy of any significant withdrawal of foreign lending to the U.S. The housing sector is (finally!) slowing as price gains moderate and unsold housing inventory grows. This is likely to cause the rate of increase in consumer spending to slow with a dampening impact on growth.

The national outlook is for slower, but solid growth in 2006 with real GDP rising by 3.4%. The nation should again generate 2 million jobs. However, inflation is the wild card and any acceleration in the rate of increase in prices could drive interest rates up significantly. Reasons for concern consist of rising energy prices and their spreading effects, rising unit labor costs, increased capacity utilization, and growing pricing power by producers.

Employment Profile

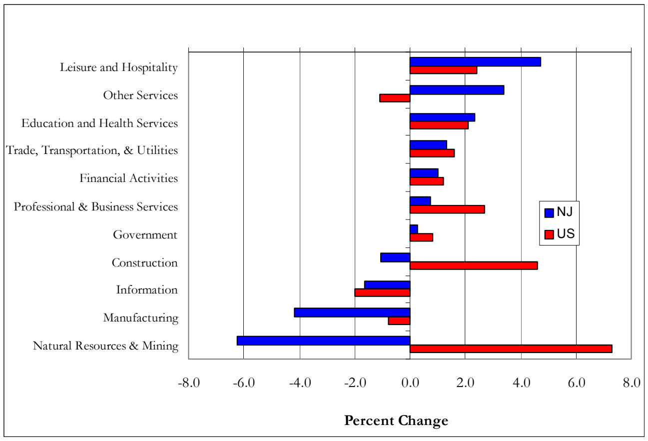
One of the disturbing employment trends for New Jersey over the last year has been the convergence between the state and national unemployment rates. In December 2004, the New Jersey unemployment rate was 4.2% and the national rate was 5.4%. By year's end, the national rate had declined to 4.9% but the New Jersey unemployment rate increased to 4.7%. This occurred despite the weakness in the national job market caused by two major hurricanes in the autumn of 2005.

The state added 37,200 jobs in 2005, including 35,400 in the private sector. As of December 2005, total employment in New Jersey was 4,069,400, or 2.7% above the cyclical low of 3,961,800 jobs in July 2002 and 1.1% above the previous peak of 4,024,00 jobs reached five years ago in December 2000. The state's job growth rate in 2005 of .9%, however, trailed the national growth rate of 1.5%. Within these total employment trends, New Jersey's job performance lagged in almost every above-average-pay business sector. In contrast, the state's job growth in the below-average-pay sectors was generally better than that of the nation.

In Manufacturing, a sector with above-average pay, the state lost 14,100 jobs for a rate of decline of 4.2%. Nationally, manufacturing jobs fell by .8% over the same time. In several key above-average-pay service sectors, the state's job growth was tepid and its rate of increase was generally below that of the nation. New Jersey added 4,400 jobs in Professional and Business services, for a growth of .8%, versus a national employment gain of 1.2%. In Financial Activities, the state added 2,900 jobs, or 1%, compared to a 1.2% increase in this sector nationally. In the Information sector, the state's performance was better than the nation's, although it lost 1,600 jobs for a 1.6% decline in contrast to a 2% drop nationally in this sector.

Instead, the state's job growth was concentrated in three below-average-pay service sectors and in these areas New Jersey outperformed the national economy. The state added 15,700 jobs in Leisure and Hospitality (mostly in the food services sub-sector) for a growth rate of 4.7% compared to a national growth rate of 2.4% in this sector. Education and Health services grew by 13,000 jobs, or by 2.3% in New Jersey compared to a 2.1% growth rate nationally. Most of the New Jersey job growth in this sector was in direct health care services. Employment in Other Services (typically repair, maintenance, personal care services, etc.) increased by 5,300 jobs in New Jersey, or by 3.4%, compared to a national decline of -1.1%.

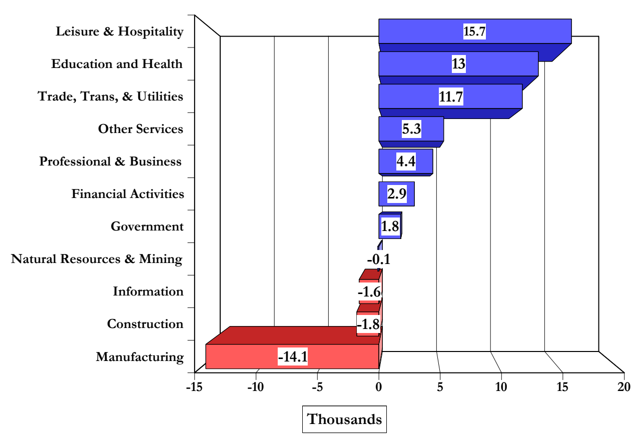
Percent Change in Non-farm Employment by Sector: NJ vs. U.S. (Dec. 2004 to Dec. 2005) (Seasonally adjusted)



(* U.S. rate of change based on revised December 2005 figures. Revised figures for New Jersey not yet available.)

Employment in Trade, Transportation, and Utilities rose by 11,700 jobs in the state, or by 1.3% compared to a national rate of increase of 1%. Most of the increase in jobs in this sector in New Jersey was in wholesale and retail trade. Construction employment fell by 1,800 jobs, or by 1.1% compared to a growth in construction employment nationally of 3.5%. As rebuilding from the damages of the hurricanes accelerates in the Gulf Coast Region in early 2006, this differential is likely to widen.

NJ Employment Change (000) by Sector, 2004-05



New Jersey ranked 17th among the fifty states in terms of absolute job gains for 2005, although the state has the 9th largest economy in terms of total employment. The state's rate of employment growth (.9%) for the year ranked 37th among the fifty states.

An appropriate key long-term objective of the new administration is to return New Jersey's employment growth rate to equal or exceed the national level and to re-balance the composition of job growth to once again include the higher paying service sectors. To this end, the immediate task is to regain the confidence of the New Jersey business sector for investment and expansion and also to support science and technology based economic growth.

Top Twenty States by Absolute Change in Total Non-farm Employment December 2004 - December 2005 (Seasonally adjusted, in thousands)

Rank	State	Absolute Change: Dec. 2004 - Dec. 2005
1	Florida	248.1
2	California	233.7
3	Texas	153.5
4	Arizona	108.9
5	Washington	78.2
6	Nevada	68.7
7	Pennsylvania	64.4
8	Georgia	64.1
9	New York	62.4
10	Illinois	61.3
11	Oregon	56.4
12	North Carolina	52.9
13	Utah	49.6
14	Virginia	41.2
15	Colorado	40.2
16	Wisconsin	38.9
17	**New Jersey**	**37.2**
18	Maryland	34.2
19	Minnesota	33.5
20	South Carolina	31.0

(Source: U.S. Bureau of Labor Statistics)

Personal Income and Consumer Spending

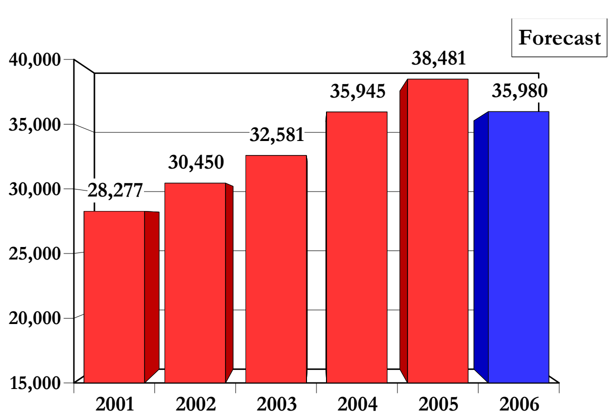
The past year was a good year for income gains in New Jersey. Record corporate profits and Wall Street bonuses will continue to fuel strong gains in income. Total personal income in New Jersey grew by 5.3% from the third quarter of 2004 to the third quarter of 2005. This rate of increase trailed the national growth in income of 5.6%, but exceeded that of Pennsylvania (5.2%), Connecticut (5%), and New York (4.8%). However, the rate of increase in personal income has been slowing over the year suggesting slower consumer spending going forward into 2006.

In addition, rising costs for gasoline and for home heating will continue to dampen consumer spending in 2006. Energy prices have been volatile during the last year, but overall energy costs at the start of 2006 are about 30% higher for gasoline and 38% higher for natural gas for residential use than a year ago. These sizeable increases reduce spending on other goods and services and result in a significant flow of dollars out of the state compared to the expenditures that they displace.

The housing sector and its related expenditures on furnishings and renovations will also ease in 2006 after a long run of boom conditions. Rising mortgage rates, slower income growth, and the effects of high house prices have led to increases in unsold housing inventory, longer time on the market, and a decline in contract sales. As of November 2005, contract sales in New Jersey were down by 13% compared to a year earlier. Unsold housing inventory was up 37% through November 2005.

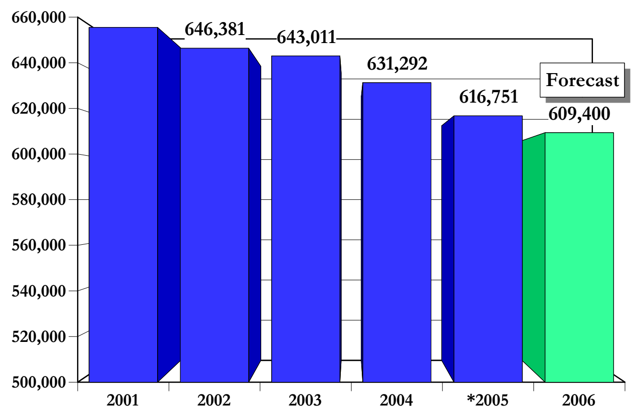
While the outlook is for a slowdown in the housing sector this year, housing enjoyed a particularly strong year in 2005 in New Jersey. Residential building permits totaled over 38,000 for the year and this was the highest yearly total of the decade. The median price of an existing single family home increased by 13.6% between the 3rd quarter of 2004 and the 3rd quarter of 2005. Although this rate of increase was lower than earlier quarters in 2005, this gain continued to support additional home equity loans and consumer spending in New Jersey.

NJ Residential Building Permits, No.



New vehicle sales continued their decline from a peak in 2001, but remained at high levels. The stop-go use of dealer incentives during the year and the several spikes in the price of gasoline echoed through the new vehicle market, causing significant volatility in monthly new vehicle registrations. Through October of 2005 new vehicle registrations were down by 4.4% over the same period a year ago. Vehicle sales will continue to be supported by modest job and income growth in 2006, but will also be affected by higher energy prices, rising interest rates, and shifting consumer tastes across vehicle types. The net effect is likely to result in a continuation of the downward trend in new vehicle registrations in 2006.

NJ New Vehicle Registrations



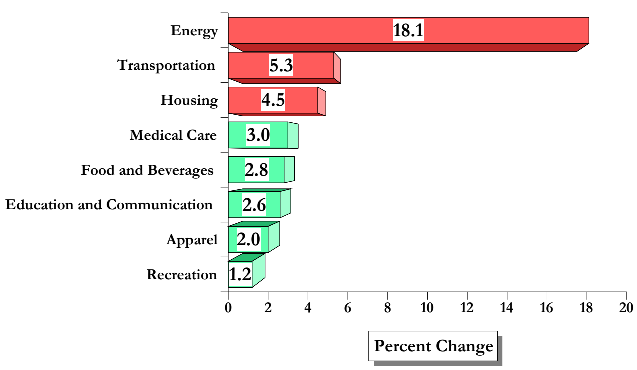
(*Forecast value for 2005 based on data through October.)

Consumer Prices

At the national level, inflation continues to trend upward. In 2005, the personal consumption price index – a gauge closely monitored by the Federal Reserve –rose by 2.8%, up from a 2.6% pace in 2004 and 1.9% in 2003. Energy prices have risen steadily in early 2006 and are likely to remain high with continued strong demand from an improving world economy and robust growth in China and India. The Consumer Price Index for all urban consumers rose by 3.4% in 2005 compared to a 3.3% gain in 2004, and 1.9% in 2003. The energy component of the CPI jumped by 17.1% last year and rose by 16.6% in 2004.

Consumer prices in the New Jersey/New York metropolitan area mirrored these trends, but at even higher rates of increase. Through November 2005, inflation in the region rose by 3.9%, slightly above the 3.8% increase of a year earlier. Energy again led the components of the index with a very large 18.1% increase. Transportation prices rose by 5.3% and housing by 4.5%. Increases in the other components of consumer prices were more moderate with medical prices rising by 3% and food and beverage prices by 2.8%. However, the overall higher rates of increase in prices in the region, combined with significantly higher house prices and taxes make the region a high-cost location for both consumers and businesses.

NY/NJ Consumer Price Index, by Expenditure Category, % Change 2004-05
All Items = 3.9 %



New Jersey's Science Based Business Sectors In Focus

New Jersey has a long tradition of innovation. The state's science-based business sectors – telecommunications, pharmaceuticals, and biotechnology – have been a major source of the state's prosperity. However, with deregulation, globalization, technical change, and increasing competition, there has been long-term erosion in both the absolute and the relative size of the state's science and technology sectors. A recent study found that the state's share of the nation's employment in key science based sectors declined significantly between 1990 and 2004. Moreover, the absolute level of employment in these sectors was 9,800 jobs lower in 2004 than in was in 1990!

Many states have increasingly emphasized a science-based economic development strategy. New Jersey pioneered such an approach in the 1980s and should return to implementing economic policies that enhance the entrepreneurial environment, make strategic investments in promising new areas of research, and build the capacity of the state's research universities.

New Jersey's Share of National Employment
1990 and 2004

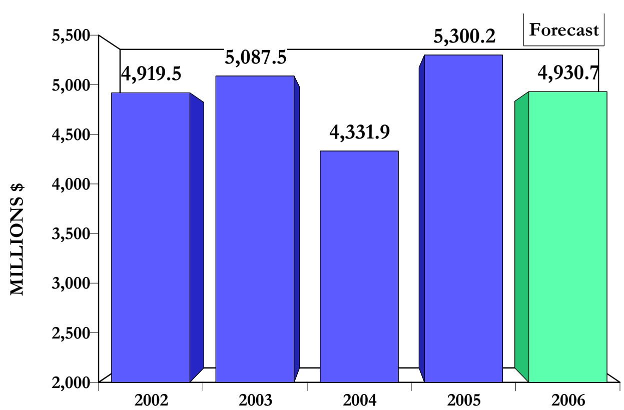
Sector	1990	2004
Pharmaceuticals and Medicine	20.2%	13.8%
Computer and Electronics Manufacturing	3.2	2.4
Telecommunications	5.8	3.9
Wired Telecommunications	7.8	4.7
Wireless Telecommunications	4.2	2.8
Internet Service Providers/Data Processing	6.1	3.5
Scientific Research and Development Services	6.6	5.1
Computer Systems Design and Related Services	6.4	4.3
Management, Scientific, and Technical Services	5.1	3.8
Architectural, Engineering and Related Services	3.6	3.3
Total	**5.2**	**4.1**

Source: An Economy at Risk: The Imperatives for a Science and Technology Policy for New Jersey, (http://policy.rutgers.edu/scitech_report.pdf). See also http://www.state.nj.us/scitech.

Investing in New Jersey

Non-residential construction jumped significantly in the last half of 2005 with major renovation projects by Verizon, Pfizer, Novartis and Citigroup. For the year, contracts rose by a robust 22% after falling by 14.9% in 2004. However, the underlying driver of office space demand, new jobs in professional and business services, finance, and information remained weak. The vacancy rate for Class A office space in the 11 county north and central New Jersey area improved in 2005 with a significant amount of vacant space absorbed. At the end of the year the vacancy rate for Class A space was 20.7%, down from 25.6% in the first quarter of 2005. However, this rate is high by historical standards and further significant declines will depend on new job creation in the key office space business sectors. The outlook for 2006 is for a decline in activity as job growth remains modest and existing vacant space continues to be absorbed.

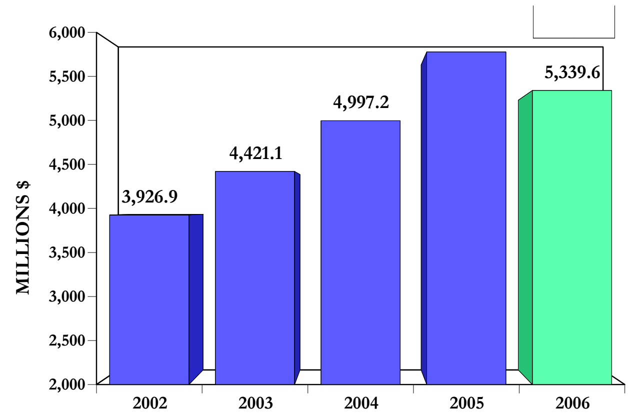
NJ Non-Residential Construction Contracts, $



(Source: New Jersey Department of Labor)

The housing market had another very good year in New Jersey. The value of residential construction contracts grew by 15.6% in 2005 from a gain of 13% in 2004. This was the result of the decade high level of residential building permits and increases in new housing construction and home renovations throughout the state. With increasing mortgage rates and lower contract sales activity, residential contracts should retreat in 2006.

NJ Residential Construction Contracts, $



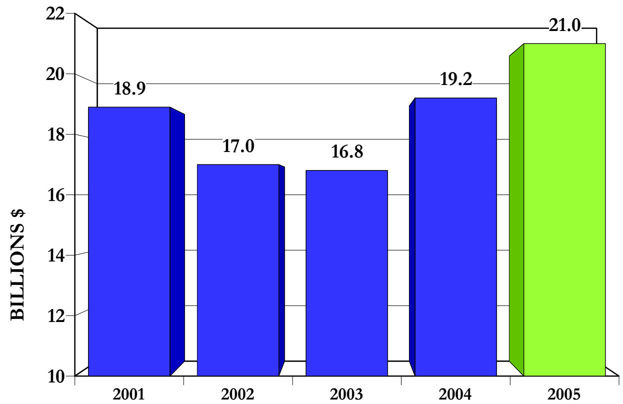
(Source: New Jersey Department of Labor)

International Trade

Foreign trade continues to boost the New Jersey economy in a major way. Exports rose by 9.4% to $21 billion in 2005. This followed a 14% gain in 2004. Major destinations for the state's exports in 2005 were Canada ($4,771 M), the United Kingdom ($1,766M), Germany ($1,294 M), Japan ($1,254 M), Mexico ($1,197 M), France ($817 M), and Italy ($795 M). New Jersey also exported $598 M to China. The state's major export commodities were industrial machinery, electric equipment, optic, photo and medical instruments, vehicles, organic chemicals, and pharmaceuticals. The outlook for 2006 is for continued strength in the New Jersey export sector as economic growth improves in the state's major trading partners and the dollar weakens after increasing in value in 2005.

In addition, the Port Authority of New York and New Jersey received the third largest number of containers (4.5 million) of all U.S. ports in 2004. This was the result of the enormous increase in imports into the United States. Imports continued to grow significantly in 2005 and further increases in container traffic have led to gains in employment and economic activity in transportation, warehousing and distribution activities in New Jersey.

New Jersey Exports, $ Billions

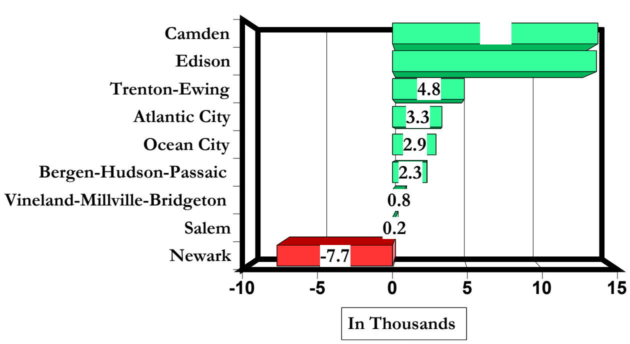


(Source: US Department of Commerce)

New Jersey Labor Markets

Within the state, the largest employment increases from December 2004 and December 2005 were in the Camden (13,700 jobs) and Edison (13,600 jobs) labor markets. Smaller gains occurred in the Trenton-Ewing (4,800 jobs), Atlantic City (3,300 jobs), Ocean City (2,900 jobs) and Bergen-Hudson-Passaic labor markets (2,300 jobs). The Newark labor market lost 7,700 jobs.

New Jersey Labor Market Non-Ag Payroll Employment Change, 2004-05 (In Thousands)



(Source: New Jersey Department of Labor)

NJ COUNCIL OF ECONOMIC ADVISORS

About the Council of Economic Advisors:
Established by law in 1993 (P.L. 1993, Chapter 149).

The Council is an advisory organization reporting directly and independently to the Executive branch of government, the Legislature and the public.

The Council prepares an Annual Report and a mid-year Report analyzing current New Jersey economic conditions and forecasting future developments, assists the Governor's Office in the preparation of the annual budget message, and advises the Governor and Legislature on public policies affecting the State's economy.

The Council consists of a Chairman appointed by the Governor and several legislative appointees.

The Council members are:

Dr. Joseph J. Seneca, Chairman
Members: Steven K. Brisgel, Victor H. Boyajian, Esq., C. Mark Dadd, Frederick Kelly, PhD., George Zoffinger

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(Current $ or Nos.)	2001	2002	2003	2004	NJCEA Forecast 2005	2006
Gross State Product (bill $)	362.3	377.8	394.0	416.1	437.3	459.2
Personal Income (bill $)[1]	333.0	337.8	343.4	362.2	380.9	401.1
Retail Sales (bill $)	105.0	106.7	109.4	114.3	119.8	125.7
New Vehicle Registrations (000)	655.5	646.4	643.0	631.3	616.8	609.4
Non-Res. Construction Contracts (mill $)	5,017.6	4,919.5	5,087.5	4,331.9	5300.2	5,194.2
Residential Building Permits (No.)	28,277	30,450	32,581	35,945	38,481	35,980
Res. Construction Contracts (mill $)	3,885.7	3,926.9	4,421.1	4,997.2	5778.0	5425.5
CPI (1982-1984=100)[2]	187.1	191.9	197.8	204.8	212.7	220.8
Employment[3]						
Total Nonfarm (000)	3,990.2	3,972.5	3,985.9	4,032.2	4,069.4	4,109.4
Manufacturing (000)	381.9	358.3	344.3	337.0	322.9	315.8
Private Service-Providing (000)	2,829.1	2,834.3	2,852.4	2,882.5	2,933.9	2,982.1
Government (000)	613.5	616.7	625.8	640.8	642.6	643.5

Percentage Change from previous year:	2002	2003	2004	2005	2006
(Current $ or Nos.)					
Gross State Product	4.3	4.3	5.6	5.1	5.0
Personal Income	1.4	1.7	5.5	5.2	5.3
Retail Sales	1.6	2.5	4.5	4.8	4.9
New Vehicle Registrations	-1.4	-0.5	-1.8	-2.3	-1.2
Non-Res. Construction Contracts	-2.0	3.4	-14.9	22.4	-2.0
Residential Building Permits	7.7	7.0	10.3	7.1	-6.5
Res. Construction Contracts	1.1	12.6	13.0	15.6	-6.1
CPI (1982-1984=100)	2.6	3.1	3.5	3.9	3.8
Employment					
Total Nonfarm	-0.4	0.3	1.2	0.9	1.0
Manufacturing	-6.2	-3.9	-2.1	-4.2	-2.2
Private Service-Providing	0.2	0.6	1.1	1.8	1.6
Government	0.5	1.5	2.4	0.3	0.1

1. 2005 estimates as reported by the BEA.
2. CPI for NY-NJ-CT-PA metropolitan area.
3. Employment figures for 2001-2005 are seasonally adjusted December totals.